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THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 2, 2007

IBA Report Number: 07-106

City Council Date: November 6, 2007

Item Numbers: 330 and 331

Debt Policy

OVERVIEW

A draft City Debt Policy was presented to the Budget and Finance Committee for consideration on July 25, 2007. The IBA provided comments on the initial draft Debt Policy in Report #07-70. In response to those comments and comments received from the Committee, the Debt Management Director and CFO presented a revised draft Debt Policy to the Budget and Finance Committee on September 26, 2007.

The City has never had a formal, written Debt Policy that comprehensively addresses procedures and goals for the use of debt to finance City needs.

In Report #07-92, the IBA provided additional comments and recommendations related to the revised draft Debt Policy. In unanimously voting to forward the Debt Policy to the City Council, the Budget and Finance Committee requested that several changes or additions be made to the draft Debt Policy in accordance with IBA recommendations and their discussion. This report reviews the further amended Debt Policy and comments on changes requested by the Committee.

FISCAL/POLICY DISCUSSION

Although a few of the requested supporting policies have yet to be developed for inclusion into the larger Debt Policy, the Debt Management Department has begun to incorporate all of the changes requested by the Budget and Finance Committee on

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September 26, 2007. The IBA has listed each of the Committee requests below and commented on the status of its incorporation into the draft Debt Policy:

- 1) The Redevelopment Agency and Housing Authority should develop their own debt policies to be incorporated into the Appendix section of the City's Debt Policy.

Comment: The Mayor's Report to the City Council #07-172 specifies "a policy for the Redevelopment Agency debt issuances will also be developed and brought forward at a future date for consideration by the Committee and the Redevelopment Agency by Agency staff." The IBA recommends that staff be directed to note that a redevelopment debt policy is currently being developed for review by the City Council and inclusion into the Appendix section of the City's Debt Policy. This notation should be placed in the Redevelopment Agency Debt Obligations section on pages 8 and 9. Understanding that a redevelopment debt policy will take some time to develop, we would recommend that the City Council request that a policy be provided to them for consideration and inclusion into the new Debt Policy before the end of FY 08.

The Housing Authority has maintained a policy for their Multifamily Mortgage Revenue Bond Program since 1989. This policy is now referenced on page 10 of the Debt Policy and included as Appendix C. As this policy has been in effect for some time, the IBA would recommend that it be reviewed and updated, if necessary, before the end of FY 08.

- 2) The Debt Policy should be amended to indicate that it would be annually reviewed by the Mayor's staff with any needed changes recommended to the Budget and Finance Committee.

Comment: This change is consistent with the GFOA Elected Official's Guide on Debt Issuance, which recommends that all state and local governments adopt comprehensive written debt management policies and that these policies be reviewed at least annually, and revised as necessary. In the last paragraph on page 2, the Debt Policy provides that "After the initial adoption, an annual review of the Debt Policy will be performed and any changes to the Debt Policy will be brought forward for City Council consideration and approval." The IBA would suggest that an annual report to the City Council, or the Budget and Finance Committee, would be an excellent opportunity to discuss the policy as it relates to financial market developments and/or the City's anticipated financing calendar for the coming year.

- 3) Operations and maintenance costs for capital improvement projects should be discussed before a financing is proposed. A budget recommendation to cover the anticipated O&M costs should be made before bonds are authorized for a capital improvement project.

Comment: The Budget and Finance Committee and the CFO agreed that operations and maintenance costs must be considered and planned for before work begins to issue debt for a capital improvement project. In the first paragraph under section 1.1 (A.) on page 3, the Debt Policy provides that "In accordance with the CIP Prioritization Policy, future operations and maintenance costs associated with capital improvement projects will be developed and identified prior to submission of the project for approval." The IBA notes that the CIP Prioritization Policy has yet to be presented and discussed at the Budget and Finance Committee or the City Council. We would recommend that the City Council request that the CIP Prioritization Policy be discussed and approved for inclusion into the new Debt Policy before the end of FY 08.

- 4) The Debt Management Department should develop a policy for the utilization of variable rate debt and derivative options.

Comment: Sections 5.4 and 5.5 of the draft Debt Policy contemplate the utilization of variable rate debt and/or derivative options. A Variable Rate Debt and Derivative Options Policy has yet to be developed. The Debt Management Department is planning to provide a workshop for the City Council in January 2008 on this topic in order to solicit City Council feedback to best develop the requested policy.

The IBA supports the plan for a workshop. In IBA Report #07-92, we suggested that the City Council learn more about the benefits and considerations associated with variable rate debt or derivative options before they are asked to approve such a debt structure. The IBA recommends that sections 5.4 and 5.5 of the draft Debt Policy note that a Variable Rate Debt and Derivative Options Policy will be developed for City Council approval and inclusion into the Appendix section of the Debt Policy, utilizing feedback from a planned workshop. We would further recommend that the City Council request that this policy be presented for adoption and inclusion into the new Debt Policy before the end of FY 08.

- 5) Recommend repealing Council Policy 800-03, Public Infrastructure Financing Assessment Districts and Community Facilities, understanding that a replacement policy was being developed for inclusion into the new Debt Policy.

Comment: The Debt Management Department is bringing the new Special District Formation and Financing Policy forward as a companion (item #331) to the Debt Policy (item #330). The new policy has been amended to strengthen the credit quality of land-backed debt issued by the City, reduce maximum tax and assessment rates for property owners within a special district and provide for more flexibility in the utilization of bond funds. These changes are described in detail within the Mayor's Report to the City Council #07-171.

The IBA supports the recommended changes because they strengthen credit quality and better protect bondholders and special district residents; however, it should be noted that these advantages result in a financing tool that may be a little less advantageous to developers that the City may wish to support. As the policy changes were only briefly discussed at the Budget and Finance Committee, the IBA recommends that the City Council ask staff any questions that they may have before adopting the new policy for inclusion into the Appendix section of the Debt Policy.

- 6) Councilmember Frye asked if the CFO could list City financial obligations that were not covered by the Debt Policy. The IBA was asked to comment on this. Councilmember Frye again requested that the City Attorney provide legal analysis as to why only some debt is included as such in the City's Debt Policy.

Comment: In the third paragraph on page 1, the Debt Policy lists those financial obligations not covered by the Policy. This same paragraph has been further amended to reference where these outstanding long-term liabilities are listed in the City's annual financial statements. While these liabilities could be listed in the Appendix section of the Policy, the IBA believes that up-front disclosure on page 1 of the Overview, with specific references to the City's annual financial statements, reasonably addresses Councilmember Frye's suggestion.

On October 30, 2007, Chief Deputy City Attorney Mark Blake issued a memorandum to Councilmember Frye in response to her request (see Attachment 1). Citing a published GFOA recommended practice on debt management policy, Mr. Blake comments that the GFOA's recommended practice "does not necessarily define the term debt." He further suggests that the City could use those affordability metrics described in sections 4.1 through 4.3 of the Policy to annually analyze the all-in debt burdens placed on its citizens. The IBA has previously commented on debt affordability measures in reports #07-70 and #07-92. If these metrics are to be annually calculated, we recommend that they only be utilized

internally so as not to confuse rating agencies or potential investors who do not expect pension or OPEB liabilities to be included in commonly evaluated debt affordability metrics.

CONCLUSION

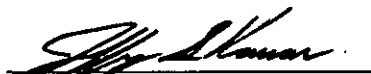
"A debt management policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner." – GFOA


The IBA has reviewed the amended Debt Policy to ensure that recommendations from the Budget and Finance Committee have been incorporated. We have recommended within this report that supporting policies be either reviewed (Multifamily Mortgage Revenue Bond Program) or developed (Redevelopment Agency Debt Policy, CIP Prioritization Policy, and a Variable Rate Debt and Derivative Options Policy) for City Council adoption and incorporation into the new Debt Policy by the end of this

fiscal year. The IBA has also recommended adoption of the new Special District Formation and Financing Policy and suggested that the City Council ask any questions they may have before adopting the new policy, as substantive changes have been made to the pre-existing policy being replaced.

The IBA commends the Mayor for bringing forward a comprehensive Debt Policy for City Council consideration. The City Council may also wish to reference IBA reports #07-70 and #07-92 on this subject. Provided that the requested supporting policies referenced above will be incorporated in FY 08, the IBA recommends that the City Council adopt the proposed City Debt Policy.

"Issuing debt commits a government's revenues several years into the future, and may limit the government's flexibility to respond to changing service priorities, revenue inflows, or cost structures. Adherence to a debt policy helps ensure that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality." – GFOA


Jeff Kavar
Fiscal & Policy Analyst


APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment

ATTORNEY TO CLIENT
CORRESPONDENCE

Office of
The City Attorney
City of San Diego

MEMORANDUM
MS 59

(619) 236-6220

DATE: October 30, 2007
TO: Council Member Donna Frye
FROM: Mark D. Blake, Deputy City Attorney
SUBJECT: Debt Policy

The City's Debt Policy was presented to the Budget and Finance Committee on June 6, 2007, July 25, 2007 and again on September 26, 2007. Councilmember Frye requested the City Attorney's view on whether the City's Debt Policy should include certain other liabilities of the City, including among others, the City's unfunded pension liability and the City's other post employment benefit (OPEB) liability.

The Government Finance Officer's Association ("GFOA") recommends in a "white paper" that "... local governments adopt comprehensive written debt management policies, and that governments review them at least annually and revise them as necessary." A Debt Management Policy is a set of "written guidelines and restrictions that affect the amount and type of debt issued by a state or local government, the issuance process, and the management of a debt portfolio. A debt management policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner." *Id.* For convenience, I have attached the GFOA guidelines as Exhibit A.

The GFOA's white paper does not necessarily define the term "debt" and to that end does address whether the City's pension unfunded liability or OPEB liability should be included in a Debt Management Policy. It is certainly the case that such liabilities do constitute significant obligations of the City (the combined amount of such obligations total over \$2 billion, the annual payments for which will represent significant payments for the City), although distinct from the discrete debt instruments covered by the Debt Policy.¹ With that being the case, it is noted that

¹ It should be noted that the City's financial statements contain compilations of the long term liabilities of the City, categorized as governmental long-term liabilities. See e.g., Note 5 to City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004. For convenience, Note 5 is attached hereto as Exhibit B.

the Debt Policy in Sections 4.1 through 4.3 of Chapter IV describes certain affordability metrics that the City can use to analyze the debt burdens placed on its citizens. While the metrics set forth in the Debt Policy exclude pension and OPEB liabilities it may be useful for the Council to request that the Mayor include metrics that attempt to ascertain the fiscal burden represented by such liabilities. At the very least, it would give the Council and the public a realistic snapshot of the future financial commitments of City. The City Attorney recommends that this report be done either during the budget season, or alternatively when the Debt Policy is reviewed.

MICHAEL J. AGUIRRE, City Attorney

By


Mark D. Brake
Chief Deputy City Attorney

MDB:jdf

cc: Michael J. Aguirre, City Attorney
Council President Peters and members of the City Council
Andrea Tevlin, Independent Budget Analyst

GFOA RECOMMENDED PRACTICE

Debt Management Policy* (1995 and 2003)

Background. Debt management policies are written guidelines and restrictions that affect the amount and type of debt issued by a state or local government, the issuance process, and the management of a debt portfolio. A debt management policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for a government to manage its debt program in line with those resources.

Recommendation. The Government Finance Officers Association (GFOA) recommends that all state and local governments adopt comprehensive written debt management policies, and that governments review them at least annually and revise them as necessary. A Debt Management Policy should address:

- *Direct Debt* - debt payable from general revenues, including capital leases,
 - *Revenue Debt* - debt payable from a specific pledged revenue source,
 - *Conduit Debt* - debt payable by third parties for which the government does not provide credit or security,
 - *State Revolving Loan Funds and Pools*
 - *Other Types of Hybrid Debt* – debt payable from special revenues or containing other unique security pledges, and
 - *Interfund Borrowing* – loans for short-term cash flow needs.
1. **Debt Limits.** The Policy should define specific limits or acceptable ranges for each type of debt. Limits are generally set for legal, public policy, and financial reasons.
- a. *Legal limits* may be determined by:
 - State constitution or law,
 - Local charter, by-laws, resolution or ordinance, or covenant.
 - b. *Public Policy limits* can include:
 - Purposes for which debt proceeds may be used or prohibited,
 - Types of debt that may be issued or prohibited,
 - Relationship to and integration with the Capital Improvement Program, and
 - Policy goals related to economic development, capital improvement financings, tax increment financing, and public-private partnerships.
 - c. *Financial limits* generally reflect public policy or other financial resource constraints, such as reduced use of a particular type of debt due to changing financial conditions. Appropriate debt limits can positively impact bond ratings, if

the government demonstrates adherence to such policies over time. Financial limits are often expressed as ratios customarily used by credit analysts. Different financial limits are used for different types of debt. Examples include:

- *Direct Debt* can be measured or limited by the following ratios:
 - ✓ Debt per capita,
 - ✓ Debt to personal income,
 - ✓ Debt to taxable property value, and
 - ✓ Debt service payments as a percentage of general fund revenues or expenditures.
- *Revenue Debt* levels are often limited by debt service coverage ratios (e.g., annual net pledged revenues to annual debt service) or credit rating impacts (e.g., additional bonds should not lower ratings) contained in bond covenants.
- *Conduit Debt* limitations may reflect the right of the issuing government to approve the borrower's creditworthiness, the purpose of the borrowing issue, or a minimum credit rating. Such limitations reflect sound public policy, particularly if there is a contingent impact on the general revenues of the government or marketability of the government's direct debt.
- *Short-Term Debt Issuance* should describe the specific purposes and circumstances under which it can be used, as well as limitations in term or size of borrowing.

2. ***Use of Derivatives.*** The Policy should:

- Specify how derivatives fit within the overall debt management program.
- State the conditions under which derivatives can be utilized.
- Identify the types of derivatives that may be employed or are prohibited.
- Identify approach(es) for measuring, evaluating, and managing derivative risk, including basis risk, tax risk, counter-party risk, termination risk, liquidity renewal risk, remarketing risk, and credit risk.
- State the methods for procuring and selecting derivative products.

3. ***Debt Structuring Practices.*** The Policy should include specific policies regarding the debt structuring practices for each type of bond, including:

- Maximum term (often stated in absolute terms or based on the useful life of the asset(s)),
- Average maturity,
- Debt service pattern such as equal payments or equal principal amortization,
- Use of optional redemption features that reflect market conditions and/or needs of the government,
- Use of variable or fixed-rate debt, credit enhancements, derivatives, and short-term debt, and limitations as to when each can be used, and
- Other structuring practices should be considered such as capitalized interest, deferral of principal and/or other internal credit support, including general obligation pledges.

4. ***Debt Issuance Practices.*** The Policy should provide guidance regarding the issuance process, which may differ for each type of debt. These practices include:

- Criteria for determining the sale method (competitive, negotiated, placement) and investment of proceeds,
- Criteria for issuance of advance refunding and current refunding bonds,
- Selection and use of professional service providers,
- Use of comparative bond pricing services or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results, and
- Use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services.

5. ***Debt Management Practices.*** The Policy should provide guidance for ongoing administrative activities including:

- Investment of bond proceeds,
- Primary and secondary market disclosure practices, including annual certifications as required,
- Arbitrage rebate monitoring and filing,
- Federal and state law compliance practices, and
- Market and investor relations efforts.

References

- *A Guide for Preparing a Debt Policy*, Patricia Tigue, GFOA, 1998.
- *Benchmarking and Measuring Debt Capacity*, Rowan Miranda and Ron Picur, GFOA, 2000.

Recommended for Approval by the Committee on Governmental Debt and Fiscal Policy, January 24, 2003.

Approved by the GFOA's Executive Board, February 28, 2003.

* This RP replaces the GFOA's RPs – Development of a Debt Policy and Analyzing Debt Capacity and Establishing Debt Limits.

5. GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES (In Thousands)

a. Long-Term Liabilities

Governmental long-term liabilities as of June 30, 2004 are comprised of the following:

Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Arbitrage Liability				\$ 262
Compensated Absences				71,895
Liability Claims				202,914
Capital Lease Obligations				30,619
Contracts Payable:				
Contract Payable to SDSU Foundation, dated December 1991	7.02%	—	1,598	1,598
Amendment to Contract Payable to SDSU Foundation, dated January 1995	7.02%	—	117	117
Total Contracts Payable				1,715
Notes Payable:				
Note Payable to Loren Daro, dated March 1995	8.0	2005	257	30
Note Payable to Wal-Mart, dated June 1998	10.0	2017	1,308	853
Notes Payable to San Diego Revitalization, dated April 2001	5.0	2032	5,115	5,115
Total Notes Payable				5,998
Loans Payable:				
International Gateway Associates, LLC, dated October 2001	10.0	2032	1,876	1,865
Padres, L.P., dated March 1999	6.0	2005	3,500	3,000
Total Loans Payable				4,865
San Diego Association of Governments (SANDAG)				
Loans Payable				19,302
Section 108 Loans Payable				44,917
General Obligation Bonds:				
Public Safety Communications Project, Series 1991	5.0 - 8.0%*	2012	25,500	14,390
Open Space Park Refunding Bonds, Series 1994	5.0 - 6.0*	2009	64,260	31,385
Total General Obligation Bonds				45,775
Revenue Bonds / Lease Revenue Bonds / COPs:				
MTDB Authority Lease Revenue Refunding Bonds, Series 1994	4.25 - 5.625*	2010	66,570	21,775
Public Facilities Financing Authority Stadium Lease Revenue Bonds, Series 1996 A	6.2 - 7.45*	2027	68,425	62,870

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation, Series 1996 A	4.0 - 5.6*	2011	\$ 33,430	\$ 20,570
San Diego Facilities and Equipment Leasing Corp. Certificates of Participation Refunding, Series 1996 B	4.0 - 6.0*	2022	11,720	9,845
Convention Center Expansion Financing Authority Lease Revenue Bonds, Series 1998 A	3.8 - 5.25*	2028	205,000	192,480
Centre City Parking Revenue Bonds, Series 1999 A	4.5 - 6.49*	2026	12,105	11,365
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 A	2.75 - 4.75*	2018	30,515	20,735
Public Facilities Financing Authority Reassessment District Refunding Revenue Bonds, Series 1999 B	3.5 - 5.10*	2018	7,630	5,165
Public Facilities Financing Authority Ballpark Lease Revenue Bonds, Series 2002	7.15 - 7.7*	2032	169,685	169,685
Public Facilities Financing Authority Fire and Life Safety Lease Revenue Bonds, Series 2002 B	3.55 - 7.0*	2032	25,070	24,665
Centre City Parking Revenue Bonds, Series 2003 B	3.0 - 5.30%*	2027	20,515	20,515
MTDB Authority Lease Revenue Refunding Bonds, Series 2003	2.0 - 4.375*	2023	15,255	15,010
San Diego Facilities Equipment Leasing Corp. Certificates of Participation Refunding, Series 2003	1.0 - 4.0*	2024	17,425	16,940
Total Revenue Bonds / Lease Revenue Bonds / COPs				591,620
<u>Special Assessment / Special Tax Bonds</u>				
1915 Act Otay Mesa Industrial Park Improvement Bonds, Series 1992	5.5 - 7.95*	2013	2,235	475
Miramar Ranch North Special Tax Refunding Bonds, Series 1998	3.75 - 5.375*	2021	59,465	50,775
Santaluz Special Tax Bonds, Series 2000 A	4.75 - 6.375*	2031	56,020	55,755
Santaluz Special Tax Bonds, Series 2000 B	4.5 - 6.2*	2031	4,350	4,295
City of San Diego Reassessment District Limited Obligation Refunding Bonds, Series 2003-1	4.25 - 5.8*	2018	8,850	8,850
Piper Ranch Limited Obligation Improvement Bonds, Series 2003	2.5 - 6.2*	2034	5,430	5,430
Santaluz Special Tax Bonds, Improvement Area No.1, Series 2004	1.7 - 5.5*	2031	5,000	5,000
Santaluz Special Tax Bonds, Improvement Area No.4, Series 2004	1.65 - 5.5*	2034	9,965	9,965
Total Special Assessment / Special Tax Bonds				140,545

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Tax Allocation Bonds:				
Centre City Redevelopment Project Tax Allocation Bonds Series 1993 A	5.5 - 6.5*	2011	\$ 27,075	\$ 13,850
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993 B	4.875 - 5.4*	2017	27,275	19,655
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995	7.8 - 9.75*	2014	1,400	940
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 A	4.4 - 6.0*	2020	1,200	960
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995 B	6.9 - 8.2*	2021	3,955	3,400
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995	4.75 - 6.592*	2020	3,750	2,660
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 A	3.8 - 6.0*	2016	12,970	9,585
Horton Plaza Redevelopment Project Tax Allocation Refunding Bonds, Series 1996 B	4.3 - 7.0*	2007	9,830	1,155
Centre City Redevelopment Tax Allocation Bonds, Series 1999 A	3.0 - 5.125*	2019	25,680	25,390
Centre City Redevelopment Tax Allocation Bonds, Series 1999 B	6.25*	2014	11,360	11,360
Centre City Redevelopment Tax Allocation Bonds, Series 1999 C	3.1 - 4.75*	2025	13,610	12,835
City Heights Redevelopment Tax Allocation Bonds, Series 1999 A	4.5 - 5.8*	2029	5,690	5,690
City Heights Redevelopment Tax Allocation Bonds, Series 1999 B	5.75 - 6.4**	2029	10,141	13,745
Central Imperial Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.6*	2031	3,395	3,260
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 A	4.0 - 5.6*	2025	6,100	5,665
Centre City Redevelopment Project Tax Allocation Bonds, Series 2000 B	3.95 - 5.35*	2025	21,390	20,565
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.8*	2022	15,025	14,680
North Bay Redevelopment Project Tax Allocation Bonds, Series 2000	4.25 - 5.875*	2031	13,000	12,340
North Park Redevelopment Project Tax Allocation Bonds, Series 2000	4.1 - 5.9*	2031	7,000	6,650
Southcrest Redevelopment Project Tax Allocation Bonds, Series 2000	4.45 - 6.5*	2026	1,860	1,750

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Type of Obligation	Interest Rates	Fiscal Year Maturity Date	Original Amount	Balance Outstanding June 30, 2004
Centre City Redevelopment Tax Allocation Bonds, Series 2001 A	4.93 - 5.55***	2027	\$ 58,425	\$ 60,083
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 2002 A	5.0*	2027	3,055	3,055
Centre City Redevelopment Project Tax Allocation Bonds, Series 2003 A	2.5 - 5.0*	2029	31,000	27,880
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 A	5.875 - 6.5*	2034	4,955	4,955
City Heights Redevelopment Project Tax Allocation Bonds, Series 2003 B	2.5 - 4.25*	2014	865	865
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 A	1.5 - 6.125*	2028	7,145	7,145
North Park Redevelopment Project Tax Allocation Bonds, Series 2003 B	4.75 - 5.0*	2034	5,360	5,360
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 A	4.65 - 5.1*	2022	6,325	6,325
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 B	3.25-5.45*	2022	4,530	4,530
Horton Plaza Redevelopment Project Tax Allocation Bonds, Series 2003 C	3.49-7.74*	2022	8,000	8,000
Total Tax Allocation Bonds				<u>314,333</u>
Total Bonds Payable				<u>1,092,273</u>
Net Pension Obligation				<u>203,589</u>
Total Governmental Activities Long-Term Liabilities				<u>\$ 1,678,349</u>

* Interest rates are fixed, and reflect the range of rates for various maturities from the date of issuance to maturity.

** The City Heights Redevelopment Tax Allocation Bonds, Series 1999 B, are capital appreciation bonds, which mature from fiscal year 2011 through 2029. The balance outstanding at June 30, 2004 includes an accreted amount of \$3,694. The principal amount at full maturity will be \$33,910.

*** The Centre City Redevelopment Tax Allocation Bonds, Series 2001 A, partially include capital appreciation bonds, which mature from fiscal year 2015 through 2027. The balance outstanding at June 30, 2004 includes an accreted amount of \$2,063. The principal amount at full maturity will be \$85,140.

Liability claims are primarily liquidated by the Self Insurance Fund and Enterprise Funds. Compensated absences are paid out of the operating funds and the miscellaneous internal service funds. Pension liabilities are paid out of the operating funds based on a percentage of payroll.

Public safety general obligation bonds are secured by a pledge of the full faith and credit of the City or by a pledge of the City to levy ad valorem property taxes without limitation. Open space general obligation bonds are backed by Environmental Growth Fund 2/3 franchise fees.

Revenue bonds are secured by a pledge of specific revenue generally derived from fees or service charges related to the operation of the project being financed. Certificates of Participation (COPs) and lease revenue bonds provide long-term financing through a lease agreement, installment sales agreement, or loan agreement that does not constitute indebtedness under the state constitutional debt limitation and is not subject to other statutory requirements applicable to bonds.

Special assessment/special tax bonds are issued by the City to provide funds for public improvements in/and or serving special assessment and Mello-Roos districts created by the City. The bonds are secured by assessments and special taxes levied on the properties located within the assessment districts and the community facilities districts, and are payable solely from the assessments and special taxes collected. The assessments and the special taxes, and any bonds payable from them, are secured by a lien on the properties upon which the assessments and the special taxes are levied. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds.

Section 108 loans are the loan guarantee provisions of the Community Development Block Grant (CDBG) program. Section 108 loans provide the community with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects.

SANDAG loans are comprised of two components: repayment of debt service on bonds, and repayment of proceeds from commercial paper. The City received distributions of SANDAG bond proceeds, based on the City's agreement with SANDAG. The annual debt service payments related to these bond issuances are recovered by SANDAG through reductions in TransNet allocations that would otherwise be available for payment to the City. TransNet - Proposition A, was passed in 1987 to enact a 1/2 percent sales tax increase to fund regional transportation projects. All expenses must first be approved by SANDAG and be included on the Regional Transportation Plan (RTP). The City recognizes repayment of the principal and interest on bonds as an increase in TransNet revenues and an offsetting debt service expenditure. In addition to financing from bond issuances, financing for TransNet related projects is made available through the issuance of commercial paper notes by SANDAG, at the request of the City. Repayment of proceeds related to the commercial paper is collected in future periods through reductions in TransNet allocations, similar to the repayment of the debt service on bonds. The interest rates used are based on a floating rate that changes daily, averaging 3.5 percent during fiscal year 2004.

b. Amortization Requirements

The annual requirements to amortize such long-term debt outstanding as of June 30, 2004, including interest payments to maturity, are as follows:

Year Ending June 30,	Capital Lease Obligations		Contracts Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 10,075	\$ 1,102	\$ -	\$ -	\$ 65	\$ 341
2006	8,090	735	-	-	38	338
2007	5,201	447	-	-	42	334
2008	2,848	277	-	-	46	329
2009	1,918	171	-	-	51	325
2010-2014	2,166	313	-	-	342	1,432
2015-2019	322	16	-	-	299	1,340
2020-2024	-	-	-	-	-	1,278
2025-2029	-	-	-	-	-	1,279
2030-2034	-	-	-	-	5,116	787
Unscheduled*	-	-	1,715	-	-	-
Total	\$ 30,619	\$ 3,091	\$ 1,715	\$ -	\$ 5,998	\$ 7,764

* The contract payable to San Diego State University Foundation in the amount of \$1,715 does not have an annual repayment schedule.

Annual payments on this debt are based on the availability of tax increment net of the low-moderate and taxing agency set-asides as well as project area administration costs.

Year Ending June 30,	Loans Payable		SANDAG Loans		Section 108 Loans		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 3,013	\$ 387	\$ 5,323	\$ 748	\$ 2,059	\$ 2,274	\$ 8,865	\$ 2,761
2006	14	185	6,853	526	2,483	2,407	7,440	2,337
2007	15	184	5,091	315	2,959	2,270	8,045	1,878
2008	17	182	2,235	109	3,422	2,101	8,225	1,388
2009	18	181	-	-	2,248	1,951	8,865	898
2010-2014	123	872	-	-	12,987	7,717	6,315	846
2015-2019	189	798	-	-	12,355	3,598	-	-
2020-2024	320	675	-	-	5,759	980	-	-
2025-2029	515	480	-	-	847	19	-	-
2030-2034	631	165	-	-	-	-	-	-
Total	\$ 4,865	\$ 4,087	\$ 18,302	\$ 1,698	\$ 44,917	\$ 23,315	\$ 45,775	\$ 9,908

Year Ending June 30,	Revenue Bonds / COPs		Special Assessment / Special Tax Bonds		Tax Allocation Bonds		
	Principal	Interest	Principal	Interest	Principal	Unaccrued Appreciation	Interest
2005	\$ 20,275	\$ 34,281	\$ 3,000	\$ 7,667	\$ 8,728	\$ 66	\$ 14,674
2006	21,435	33,380	3,505	7,471	8,856	137	14,311
2007	19,880	32,418	3,775	7,312	9,305	199	13,927
2008	20,865	31,440	4,050	7,138	9,881	259	13,517
2009	21,565	30,397	4,325	6,946	10,358	304	13,077
2010-2014	93,770	136,799	26,375	31,067	61,255	3,157	56,394
2015-2019	100,090	110,435	33,390	23,094	76,235	8,968	38,873
2020-2024	125,890	78,071	25,155	14,539	68,849	19,091	20,571
2025-2029	124,355	37,506	22,780	8,040	44,458	18,797	6,742
2030-2034	43,495	6,610	14,190	1,311	10,651	-	1,160
Subtotal	591,620	531,317	140,545	114,585	308,576	50,978	193,246
Add:							
Accrued Appreciation through June 30, 2004					5,757		
Total	\$ 591,620	\$ 531,317	\$ 140,545	\$ 114,585	\$ 314,333	\$ 50,978	\$ 193,246

c. Change in Long-Term Liabilities

Additions to governmental activities long-term debt for contracts, notes and loans payable may differ from proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances due to funding received in prior fiscal years being converted from short-term to long-term debt as a result of developers extending the terms of the obligation.

The following is a summary of changes in governmental activities long-term liabilities for the year ended June 30, 2004. The effect of bond accretion, bond premium, discounts and deferred amounts on bond refunds are amortized as adjustments to long-term liabilities.

	Governmental Activities				Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Arbitrage Liability	\$ 363	\$ 262	\$ (363)	\$ 262	\$ -
Compensated Absences	70,654	52,531	(51,290)	71,895	29,938
Liability Claims	154,069	86,967	(38,142)	202,914	42,414
Capital Lease Obligations	37,701	4,238	(11,320)	30,619	10,075
Contracts Payable	1,882	-	(167)	1,715	-
Notes Payable	8,416	-	(2,418)	5,998	65
Loans Payable	2,851	3,500	(1,486)	4,865	3,013
Section 108 Loans Payable	25,925	21,107	(2,115)	44,917	2,059
SANDAG Loans Payable	17,341	6,400	(4,439)	19,302	5,323
General Obligation Bonds	52,165	-	(6,390)	45,775	6,885
Revenue Bonds / COPs	609,785	-	(18,165)	591,620	20,275
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(1,078)	-	79	(999)	-
Net Revenue Bonds/COPs	608,707	-	(18,086)	590,621	20,275
Special Assessment / Special					
Tax Bonds	123,130	29,245	(11,830)	140,545	3,000
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	-	(748)	47	(701)	-
Net Special Assessment Bonds	123,130	28,497	(11,783)	139,844	3,000
Tax Allocation Bonds	279,136	37,180	(7,740)	308,576	8,794
Interest Accretion	4,174	1,583	-	5,757	-
Balance with Accretion	283,310	38,763	(7,740)	314,333	8,794
Unamortized Bond Premiums, Discounts and Deferred Amounts on Refunding	(132)	(11)	175	32	-
Net Tax Allocation Bonds	283,178	38,752	(7,565)	314,365	8,794
Net Pension Obligation	141,712	61,877	-	203,589	-
Total	\$ 1,528,114	\$ 304,131	\$ (155,564)	\$ 1,576,681	\$ 131,841

d. Defeasance of Debt

Limited Obligation Refunding Bonds for the Reassessment District No. 2003-1 were issued by the City in the amount of \$8,850. These bonds are payable from and secured by unpaid Reassessments upon real property located in the Reassessment District, proceeds from foreclosure proceedings, and other amounts held in certain funds maintained under the Indenture. The majority of the bond proceeds were used to refund three limited obligation improvement bonds issued under the Improvement Bond Act of 1915. The three issuances refunded were De La Fuente Phase I, De La Fuente Phase II, and the International Business Center Project, maturing on September 2 of 2013, 2017, and 2015, respectively. The refunded bonds are defeased and the corresponding liability has been removed from the Statement of Net Assets. The refunding resulted in a total economic gain of approximately \$441, and a cash flow savings of \$2,283. The current bonds issued are payable in increasing installments of principal over the next fourteen years. The refunded bonds were redeemed at a call date prior to the end of the fiscal year and, accordingly, there was no balance outstanding as of June 30, 2004.

As of June 30, 2004, principal amounts payable from escrow funds established for defeased bonds are as follows:

<u>Defeased Bonds</u>	<u>Amount (In Thousands)</u>
Horton Plaza Redevelopment Project Subordinate Tax Allocation Refunding Bonds, Series 1996 B	\$ 6,640
Miramar Ranch North Special Tax Bonds, Series 1995 B	20,010
Total Defeased Bonds Outstanding	<u>\$ 26,650</u>

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THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 31, 2007

REPORT NO. 07-171

ATTENTION: Council President and City Council
Docket of November 6, 2007

SUBJECT: Special District Formation and Financing Policy

REFERENCE: 1. Debt Policy Report to City Council (Companion Item)
2. Council Policy 800-03

REQUESTED ACTIONS:

Adopt the proposed Special District Formation and Financing Policy and repeal Council Policy 800-03, "Public Infrastructure Financing Assessment Districts and Community Facilities."

STAFF RECOMMENDATION – Approve the requested action.

SUMMARY:

I. BACKGROUND

In connection with a comprehensive City Debt Policy, the Department of Finance has developed a Special District Formation and Financing Policy (the "Special District Policy") (Attachment 1). The Special District Policy will appear as an appendix to the City Debt Policy, and is intended to provide uniform guidelines for Community Facilities District ("CFD")¹ and 1913/1915 Act Assessment District² ("Assessment District") formation and financing. Such Special Districts are typically formed to finance public infrastructure in connection with new development, but may also be formed to finance improvements pertaining to established communities. Subject to voter approval and once a district is formed, special taxes or assessments may be levied upon properties within a district to directly pay for facilities and certain services. Special taxes or assessments may also be levied to repay bonds issued to finance public improvements. These

¹ The Mello-Roos Community Facilities Act of 1982 permits a public agency to levy a special tax within a defined area to finance certain essential facilities, or to pay for certain services, when specific voting requirements are met.

² An Assessment District may be formed pursuant to the Streets and Highways Code Municipal Improvement Act of 1913. The associated bond acts, also contained within the Streets and Highways Code, include the Improvement Bond Act of 1915 and the Refunding Act of 1984, which provide for the issuance of bonds under various assessment proceedings and the refunding of assessment bonds, respectively.

Special Districts are primarily developer initiated, wherein a developer seeks a public financing mechanism to fund public infrastructure required in connection with its development. Special District formation may also be initiated by an established community.

II. DISCUSSION:

Currently, Council Policy 800-03 "Public Infrastructure Financing Assessment Districts and Community Facilities," ("Council Policy 800-03") established in 1965 and last amended by resolution on October 16, 1989, provides policy direction on the formation of CFDs and Assessment Districts. It is proposed that Council Policy 800-03 be repealed and that CFD and Assessment District formation and financing be addressed through the City Debt Policy, which would provide a more comprehensive and uniform approach to addressing this sub-topic as a part of the City's overall debt policy. A copy of Council Policy 800-03 is included as Attachment 2. Although key policy issues are covered in both the existing and proposed policies, because the format and approach to the proposed policy is significantly different from the existing policy (and the proposed action includes the repeal of Council Policy 800-03 in its entirety), a strike-out version of the Council Policy is not included.

Specific action approving the Special District Policy is requested because, under the Mello-Roos Community Facilities Act of 1982, Section 53312.7, a local agency must establish local goals and policies concerning its CFD formation activities. Currently, this requirement is met through Council Policy 800-03. It is proposed that the Special District Policy be adopted to meet this provision with respect to any future districts that may be formed by the City.

Listed and described below are certain key policy changes made in the proposed Special District Policy as compared to the existing Council Policy 800-03. These changes are consistent with recent trends in terms of how other municipalities across the state are approaching CFD and Assessment District formation and financing.

A. Provision of Services Component

In accordance with Section 53313 of the California Government Code, CFDs may provide funds for certain public services, including police and fire services, and recreation program services so long as they are in addition to, and do not supplant, services already provided within the territory.

- Existing Policy (Council Policy 800-03, Section I.): Provides that the use of CFDs to finance on-going services would be approved by the City "only under unusual and compelling circumstances."
- Proposed Policy (Special District Policy, Section 10.4.E.): Due to the significant budgetary impact that new facilities may place on the City in terms of on-going operations and/or maintenance costs (e.g., staffing and/or maintenance of fire stations, parks, etc.), proposed CFD financing for new facilities should provide funding for a portion of any associated on-going operations and maintenance costs, to the extent the services do not supplant services already being provided. At the time a CFD is formed,

the City would need to identify existing service demands for the area, and these services would not be eligible for CFD funding. Development impacts that result in the need to allocate additional budgetary resources to maintain City-wide service levels is the area (e.g., an increase in the number of police officers due to an increase in population in the area resulting from the development) would be eligible for CFD funding.

B. Minimum Value to Lien Ratio

The security for CFD and Assessment District bonds is the value of the property securing the special tax or assessment lien. For these types of bonds, the investment community expects that the issuer will covenant to commence foreclosure proceedings against delinquent parcels of land in the event certain special tax or assessment delinquency thresholds are reached. Ultimately, if the delinquent special taxes or assessments are not paid, foreclosure proceedings would commence and the delinquent parcels would be sold to pay off the outstanding delinquent special taxes or assessments. To protect the credit quality of the bonds, and the interests of bondholders in the event delinquencies for a parcel reach a level requiring foreclosure action, it is important to establish an appropriate minimum value-to-lien ratio for Special District financings. The value-to-lien ratio is the ratio between the value of the land and improvements for a parcel of real property that would be subject to the special tax or assessment to the amount of bond principal allocable to such parcel and the share of principal allocable from any other outstanding bonds that are secured by a special tax or special assessment levied on the parcel.

- Existing Policy (Council Policy 800-03, Section III.A2.1.): The “value-to-lien ratio for all properties, after improvements are in place, within the district must be at least 3:1.”
- Proposed Policy (Special District Policy, Section 10.5.A.): A value-to-lien ratio of at least 4:1 would be required. This could enhance the credit quality of any future issuance of Special District bonds.

C. Maximum Tax and Assessment Rates

As described above, once a CFD or Assessment District is formed, special taxes or assessments may be levied upon properties within a district to pay directly for facilities and services, or to repay bonds issued to finance the facilities. Establishing tax rate limitations is recommended in order to balance the need to finance public facilities and services in newly developing areas against the desire to avoid overburdening residents of those areas with special taxes or assessments.

- Existing Policy (Council Policy 800-03, Section III.A2.3.): “Total taxes and special assessments collected through the property tax bill should not exceed 2.00% of the assessed value of the property, including improvements.”
- Proposed Policy (Special District Policy, 10.6.C.): Total taxes and assessments collected through the property tax bill should not exceed 1.80% of the expected assessed value of the parcel upon final sale of the property to an end user. In light of the significant increase in general property values within the City over the past decade (and

therefore the value the maximum rate is applied against in calculating the amount of special taxes or assessments that could be levied), a lower maximum rate is proposed to limit the overlapping debt burden on any one parcel.

In general, other differences between Council Policy 800-03 and the proposed Special District Policy are that bond credit quality requirements or provisions have been added or enhanced (see Section 10.5 of the Special District Policy) and processes included in Council Policy 800-03 that are more administrative in nature or prescribed pursuant to local or state law (e.g., methods of assessment for Assessment Districts, retention of construction contractors, and recovery of formation costs), are omitted or more generally addressed in the proposed policy. In addition, the Special District Policy specifies that the generally recommended method of Special District financing is CFDs versus Assessment Districts due to certain factors, as described in Section 10.3.E. of the proposed policy, such as greater flexibility in the types of facilities that may be financed and greater flexibility with respect to funding services.

The proposed Special District Policy also states that the City's ability to provide the resources necessary to implement new Special District financings must be considered in the context of competing needs for general City and Water and Wastewater Utility debt issuances. In addition, it contemplates that bond financing will not generally be utilized in conjunction with the proposed formation of smaller districts, defined as projects totaling less than \$3.0 million to \$5.0 million. For projects under \$3.0 million to \$5.0 million, bond financing is not typically cost effective and may not generally be justified in relation to the City's other financing priorities. However, such projects would be reviewed on a case by case basis and even if a financing is not recommended, an Assessment District may be formed, followed by a one-time enrollment of assessments to pay for the subject public facilities directly.

The proposed Special District Policy has been reviewed by the City Attorney's Office, City Planning and Community Investment, and an independent financial advisory firm, Fieldman, Rolapp & Associates, which has significant experience in Special District formation and debt issuance and has worked with many municipalities across the state, including other cities within the County of San Diego.

III. FISCAL CONSIDERATIONS:

None specific to this action.

IV. PREVIOUS COUNCIL ACTION:

The Debt Policy, including Appendix A (the Special District Policy), was presented to the Budget and Finance Committee (the "Committee") on June 6, 2007, and was discussed in further detail at the Committee meetings of July 25, 2007 and September 26, 2007. On September 26, 2007, the Committee's adopted action was to recommend the Debt Policy and the repeal of Council Policy 800-03 to the City Council.

Previous City Council actions include the adoption of Council Policy 800-03 by Resolution R-183351 on April 6, 1965, and the adoption of various amendments to such policy on the following

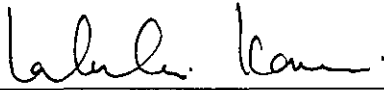
dates: December 14, 1965 (R-185734); August 9, 1966 (R-188027); April 4, 1968 (R-193345); January 9, 1975 (R-212402); March 21, 1983 (R-258118); October 16, 1989 (R-274571).

V. COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:


There were no community participation or outreach efforts.

VI. KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):

Key stakeholders include future applicants for Special District formation and/or financing. Other key stakeholders include owners of property subject to a special tax or assessment lien and investors holding bonds in connection with Special Districts that may be formed in the future, and in accordance with the proposed Special District Policy.



Lakshmi Kommi
Debt Management Director



Jay M. Goldstone
Chief Operating Officer

Attachments:

- (1) Proposed City of San Diego Special District Formation and Financing Policy
- (2) Council Policy 800-03 (Public Infrastructure Financing Assessment Districts and Community Facilities)

000227

APPENDIX A – SPECIAL DISTRICT FORMATION AND FINANCING POLICY**10.1 Overview**

The following Special District Formation and Financing Policy is enacted to provide a uniform guideline for Community Facilities District (“CFD”) and 1913/1915 Act Assessment District formation and financing. A Special District is typically formed to provide funding for public infrastructure in connection with new development, but may also be formed to finance improvements pertaining to developed properties. Subject to voter approval and once a district is formed, special taxes or assessments may be levied upon properties within a district to directly pay for facilities, and, in certain cases, services. Special taxes or assessments may also be levied to repay bonds issued to finance public improvements.

The City expects that private developers should have primary responsibility for providing public infrastructure required in connection with new development. With this policy as a guideline, the City will continue to consider requests for Special District formation and debt issuance to finance such public infrastructure when the requests address an extraordinary public need or benefit. However, due to the significant burden placed on the City to provide these conduit financings, and in light of potential impacts to the City’s debt position, the Chief Financial Officer, working with the Debt Management Director, will consider each application for Special District debt issuance on a case by case basis, and may not proceed with such financing if it is determined that the financing could be detrimental to the debt position or best interests of the City.

This Special District Formation and Financing Policy is specific to Special Districts and supplemental to the City’s Debt Policy. As such, guidelines provided in the City’s Debt Policy would, in many cases, also be applicable to Special Districts. In addition, the City will adhere to all state and federal laws concerning the issuance of Special Districts related debt.

The City’s Special District Formation and Financing Policy is specifically designed to:

- Establish parameters for the Special District formation and financing processes
- Assist concerned parties in following the City’s approach for forming districts and issuing any related debt
- Facilitate the actual formation and financing processes by establishing important policy guidance in advance
- Amend and restate the City’s Local Goals and Policies (currently set forth within Council Policy 800-03) for CFD formation and financing, as required by Section 53312.7 of the California Government Code

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10.2 Background: Types of Special Districts

This Special District Formation and Financing Policy is intended to provide a uniform guideline for Community Facilities District ("CFD")¹ and 1913/1915 Act² Assessment District formation and financing. These Special Districts are primarily developer initiated, whereby a developer seeks a public financing mechanism to fund public infrastructure required of it by the City in connection with development permits or agreements, and/or tentative or subdivision maps. Special District formation may also be initiated by an established community.

It is important to note that the formation and debt issuance processes related to Special Districts may be considered as distinct activities. That is, districts may be established and the assessments or special taxes levied could pay directly for improvements and in certain cases, services. Alternatively, associated bonds may be issued by such districts to finance improvements, in which case the debt service would be paid with assessment or special tax revenues.

A. Community Facilities District Financing – Mello-Roos Bonds

The Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos Act") was enacted by the State to help growing areas finance certain essential public facilities that typically accompany major development projects. The Mello-Roos Act permits a public agency to create a defined area within its jurisdiction and, by a two-thirds majority vote of the registered voters within the district (or, if there are fewer than 12 registered voters, through a landowner vote), levy a special tax within the district to pay directly for public improvements or services, or pay debt service on bonds issued to finance improvements. CFD, or Mello-Roos, Bonds are not fiscal obligations of the City, and are limited obligations of the CFD, payable solely from special taxes levied upon property within the district. The special taxes are calculated and levied pursuant to a Rate and Method of Apportionment, or tax formula. Under the Mello-Roos Act, the formula must be reasonable.

Formation of a CFD may be initiated by the legislative body on its own or when the appropriate request or petition, as defined by the Mello-Roos Act, is filed with the City. The financed public facilities must ultimately be owned and operated by a public entity, such as the City, and may include, among other things, parks, libraries, police and fire facilities, roadways, and water and sewer infrastructure improvements that have a useful life of five years or more. In accordance with Section 53313 of the California Government Code, CFDs may also provide funds for certain public services, including police and fire services, and recreation program services so long as they are in addition to, and do not supplant, services already provided within the territory.

B. Assessment District Financing

¹ The Mello-Roos Community Facilities Act of 1982 permits a public agency to levy a special tax within a defined area to finance certain essential facilities, or to pay for certain services, when specific voting requirements are met.

² An Assessment District may be formed pursuant to the Streets and Highways Code Municipal Improvement Act of 1913. The associated bond acts, also contained within the Streets and Highways Code, include the Improvement Bond Act of 1915 and the Refunding Act of 1984, which provide for the issuance of bonds under various assessment proceedings and the refunding of assessment bonds, respectively.

The Municipal Improvement Act of 1913 provides for a local agency to form an Assessment District to finance certain infrastructure, including roadways, water and sewer facilities, storm drains, and other improvements often required in connection with new development. Assessment Districts formed under this Act may also finance, but in very limited circumstances, maintenance services. Assessment Districts may also be formed to provide for, among other things, the undergrounding of overhead utility lines or the abatement of hazardous geological conditions, upon a successful petition signed by owners of property who want the improvement.

An Assessment District must include all properties that will benefit directly from the improvements to be constructed, and formation of the district requires an election in which at least 50% of property owners vote in favor of the district. If an Assessment District is formed, the City may levy assessments that can be utilized to directly finance the public improvements, or may be pledged to support debt service on bonds, which may be issued under the Improvement Bond Act of 1915. The assessments that are levied upon each parcel must be based upon the direct and special benefit received by the property.

10.3 Considerations for Authorization of Special District Financing

The formation and financing processes related to Special Districts may be considered as two distinct processes. In order for a financing process to occur, a formation process is also necessary. However, a district could be formed without an associated bond financing. In this case, the special taxes or assessments that are levied would provide revenues to pay directly for public improvements, or, in certain cases, services (versus paying debt service on bonds issued to finance improvements). The following guidelines generally relate to the financing process for Special Districts.

A. Credit Considerations

It is the City's policy to exercise caution in approving requests for Special District financing and that each request be weighed in the context of the City's total infrastructure and financing needs. Although the rating agencies consider Special District financings as overlapping debt (as compared to direct debt), if, and to the extent, the City's overlapping debt burden is viewed as excessive, there could be an impact to the City's credit. Such an impact could increase the costs of all future City bond financings. In light of potential impacts to the City's debt position, the Chief Financial Officer will consider each application for Special District financing on a case by case basis, and may not recommend such financing if it is determined the financing could be detrimental to the City's overall debt position or the best interests of the City.

B. Extraordinary Public Benefit

With respect to CFD financing, the applicant should demonstrate that a proposed project will provide an extraordinary public benefit. This condition may be met if at least one of the following criteria is satisfied:

Regional Benefit – The improvements must be generally large in scope, and provide a community-wide or regional benefit. Examples of regional improvements are libraries, fire stations, and transportation improvements that result in a significant net improvement to the regional transportation system, and parks and recreational improvements of a unique or otherwise significant nature that are anticipated to serve residents from across the City.

Additional Public Benefits – The proposed improvements must provide some other extraordinary benefit which otherwise would not be realized through the normal subdivision process. Examples of this type of benefit would include: the provision of the proposed improvements in a more timely fashion; facilitating a project that multiple properties/developments are responsible for providing; facilitating a City adopted redevelopment project; the provision of environmental benefits; the provision of public infrastructure undertaken in connection with affordable housing; or a similar benefit that the City finds acceptable.

C. Competing Projects

The City's ability to provide the resources necessary to implement new Special District financings must be considered in the context of competing needs for general City and Water and Wastewater Utility debt issuances. Also, priority for Special District financing will generally be given to the projects that will confer the greater level of benefit to the City's residents.

It is the City's policy that bond financing will not generally be utilized in conjunction with the formation of smaller districts, defined as projects totaling in the \$3.0 million - \$5.0 million range. Such projects often benefit only a relatively small number of property owners. For projects under \$3.0 million to \$5.0 million, bond financing is not typically cost effective. Due to these factors, the allocation of limited staff resources would not generally be justified in relation to the City's other financing priorities. In these cases, an Assessment District may be formed, followed by a one-time enrollment of assessments to pay for the subject public facilities directly.

D. Administrative Considerations

Although Special District financings are not fiscal obligations of the City, the City is required to provide extensive on-going annual disclosure with respect to each Special District financing in conformance with federal securities laws, and must also perform extraordinary on-going administrative work. Such work includes the calculation, enrollment, and collection of special taxes and assessments each year, the monitoring of delinquency activity and conducting of foreclosure activities if certain delinquency thresholds are reached, the calculation and processing of pre-payments and subsequent updating of debt service schedules, and preparation of additional annual disclosure pursuant to State law. In its assessment of each application for Special District financing, consideration will also be given to the significant burden placed on the City's limited resources to administer these conduit financings for the term of the bonds.

E. Recommended Method of Special District Financing

The generally recommended method of Special District financing is CFDs due to the following factors:

Flexibility of Taxing Formula: CFD financing offers more flexibility with respect to the taxing formula as compared to Assessment District financing (e.g., publicly owned property, such as property owned by a school district or the City, can be exempted from the payment of special taxes, and low income housing can be assessed a nominal special tax thereby easing the burden on such properties).

Eligible Facilities: CFDs offer more flexibility than Assessment Districts with respect to the types of facilities and services that may be funded. In addition, eligible facilities under Assessment Districts are limited to facilities located within the district; this is not the case for CFDs.

Credit Strength: For a given project, CFD Bonds are perceived to be a stronger credit than Assessment District Bonds because the Mello-Roos Act permits greater than 100% debt service coverage and allows an administering agency to factor in a certain amount for delinquencies in the annual enrollment of special taxes. Comparatively, only 100% debt service coverage is permitted with respect to Assessment Districts and there is no allowance for delinquencies.

On-Going Costs: CFDs are less resource intensive than Assessment Districts to administer on a post debt issuance basis (e.g., for Assessment Districts, any changes in parcel configuration require a costly and time-intensive reapportionment process under the State law).

Unless circumstances warrant otherwise, it is the policy of the City to support CFD financing versus Assessment District financing for a given project. However, as noted above, in the case of districts that would finance smaller projects, such as those pertaining to established communities, an Assessment District may be more appropriate. In such cases, a one-time enrollment of assessments (versus a bond financing) may also be recommended.

10.4 Eligible Public Facilities and Priorities

A. Ownership and Useful Life of Proposed Facilities

The improvements eligible to be financed must be owned by a public agency or public utility, and must have a useful life of at least ten years.

B. Types of Eligible Facilities

The list of public facilities eligible to be financed by a CFD may include, but is not limited to the following: streets, highways, and bridges; water, sewer, and drainage facilities; parks; libraries; police and fire stations; traffic signals and street lighting; recreation facilities; governmental facilities; flood control facilities; environmental mitigation measures; and public rights-of-way landscaping.

C. Priority of Facilities

In general, with respect to CFDs, none of the types of facilities listed under Section 10.4.B. will have priority over the others; however, when a developer submits an application to finance more than one eligible facility, the applicable City departments (e.g., the Library Department, the Park and Recreation Department, Engineering & Capital Projects, City Planning and Community Investment, etc.) will confer and determine the priority based on the estimated impacts (i.e., benefits conferred) of the eligible projects to the district and surrounding impacted communities.

D. Joint Communities Facilities Agreement(s)

Under Section 53316.2 of the California Government Code, a CFD may be formed to finance facilities owned or operated (or to fund services to be provided) by an entity other than the agency that created the district, if a Joint Communities Facilities Agreement (JCFA) or a joint exercise of powers agreement is adopted. The City will not enter into a JCFA or joint exercise of powers agreement for a CFD proposed to be formed by another public agency unless:

- The proposed CFD complies with the provisions of this Special District Formation and Financing Policy with regard to Sections 10.6 (C), "Maximum Tax and Assessment Rates," Section 10.8 (C) "Disclosure to Prospective Purchasers of Property," as well as any other provisions the Debt Management Director may deem applicable to the proposed CFD;
- The applicant/developer requesting CFD financing provides funds to reimburse City costs incurred to review and approve the JCFA.

All disclosures provided to prospective property owners within a CFD formed by another public agency in which the City has entered into a JCFA shall clearly specify that such public agency is solely responsible for the CFD, including formation of the CFD, the levy and administration of special taxes, and the bond financing.

E. Services

Consistent with recent trends in other municipalities across the State, the Chief Financial Officer, working with the Debt Management Department, recommends that services be included among the list of authorized items to be financed through a new CFD. Under Section 53313 of the California Government Code, a CFD may finance any one or more of the following types of services so long as they are in addition to the services provided in the territory before the district was established and do not supplant services already available in such territory: police protection services; fire protection services; recreation program services; library services; maintenance of parks, parkways, and open space; and flood and storm protection services.

In general, the City would expect that when a CFD provides for public facilities that require on-going City operations and/or maintenance (or when the impacts of the new development create other on-going service demands within the area), a mechanism would

be established to off-set a portion of those associated costs through the CFD. Methods that could be employed may include: (1) the incorporation of some pre-determined amount into the special tax formula for services; or (2) a provision in the special tax formula that special taxes would be levied up to the maximum tax rates, with any amounts collected over and above the amount needed for debt service, replenishment of the Debt Service Reserve Fund, administrative costs, and any other periodic items required in connection with a bond issuance, to be allocated for services. The City will have complete discretion as to the method of incorporating a services component into the CFD, and would consult with its Bond Counsel and special tax consultant in developing the appropriate mechanism.

10.5 Credit Quality Requirements for Bond Issuances

It is the objective of the City to minimize the credit risks associated with Special District bonds. To this end, the following policies are established:

A. Value of Property

Bonds shall be sold in connection with a district or improvement area only if the value of each individual parcel of real property that would be subject to the special tax or assessment is at least four times the share of the bond principal allocable to such parcel and the share of principal allocable from any other outstanding bonds that are secured by a special tax or special assessment levied on the parcel. On a case by case basis, the City reserves the right to require a higher value to lien ratio. In determining the value to lien ratio, either assessed values for individual properties may be obtained from the County of San Diego Assessor's Office or the City may utilize an appraisal prepared by an independent appraiser under contract to the City.

To meet this policy, property owners may elect to prepay special taxes to comply with this requirement. In certain circumstances, the City may allow property owners to meet this requirement through the provision of credit enhancements to the satisfaction of the City. Also, in certain circumstances, the City reserves the right to require the provision of credit enhancement to the satisfaction of the City. These enhancements may include letters of credit or other appropriate assurance.

B. Debt Service Coverage for CFD Bonds

The maximum tax rate adopted in each CFD must provide a minimum of 110% coverage of debt service (excluding earnings on a Debt Service Reserve Fund) in order to finance delinquencies out of special tax revenues.

C. Capitalized Interest

Generally, for Special District financings, a capitalized interest account would be established from bond proceeds if such proceeds are necessary to pay principal and interest on the bonds prior to the enrollment and receipt of the first year of special taxes and assessments for the district. A capitalized interest account should be established if it

will improve the credit quality of the bonds and result in lower borrowing costs. In no event will the capitalized interest period exceed two years.

D. Debt Service Reserve Fund

A Debt Service Reserve Fund should be established for Special District financings. At minimum, the Debt Service Reserve Fund for Special District financings should be the least of (i) maximum annual debt service on the bonds; (ii) 125% of average annual debt service on the bonds; or (iii) 10% of the original principal amount of the bonds.

E. Maturity Date

No bonds shall be issued with a maturity date greater than the expected useful life of the facilities or improvements being financed.

F. Acquisition Type Districts

Unless there are extraordinary circumstances, Special Districts will be formed as acquisition type districts whereby a developer will be reimbursed for projects only when discrete, useable facilities are deemed completed by the City, as opposed to merely completing a section of a facility. Acquisition type districts present stronger credit features, and better assures that the public facilities, which are ultimately paid for by assessment and special tax payers, are completed.

G. Third Party Guarantee of Special Tax and Assessment Payments During Project Development

The greatest exposure to default on Special District bonds is the period between the issuance of bonds and project stabilization. The risk of default is increased when only a single or a few property owners are responsible for the special assessment or special tax payments. While the City's credit is not pledged to support the bonds, a default on Special District bonds can negatively impact the investment community's perception of the City.

To minimize the risk of default, the City may require a third party guarantee for the annual special tax or assessment payments within a district while the project is being developed and until there is significant absorption of the new development. The need for, nature, and duration of any third party guarantees will be evaluated by the City and its Financing Team on a case by case basis. However, a third party guarantee, such as a letter of credit ("LOC"), would be specifically required of a property owner/developer in each year in which the property owner/developer owns or leases property within the district which is responsible for 20% or more of the special taxes or assessments levied to support the repayment of bonds; the LOC would provide for 100% of the of the special tax or assessment levy due in each applicable fiscal year for property owned or leased by such property owner/developer. If required, the third party guarantee must be provided within five days of the Resolution of Issuance.

Third party guarantees may include letters of credit, surety bonds, or some other mechanism which assures payment of special taxes or assessments while the project is

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being developed. When LOCs are required, they must meet any City standards for LOCs that exist at the time the LOC is provided.

H. Foreclosure Covenants

Because Special District financings are generally solely secured by liens against property within the district, the investment market expects to see appropriate foreclosure covenants. Foreclosure covenants would compel the City to take action to file a foreclosure lawsuit against a parcel when certain delinquency thresholds are reached. For each financing, the Debt Management staff and its consultants will analyze key aspects of the district (e.g., number of parcels, special tax/assessment rates, and debt service) to structure foreclosure covenants in a manner that reduces the likelihood of a shortfall in special taxes/assessments to pay debt service.

10.6 Tax and Assessment Allocation Formulas

A. Calculation and Allocation of Special Taxes and Assessments

Special Assessments – By law, the amount of an assessment must directly reflect the benefit received from the improvement. Typically, this means the total cost of the project, including any financing costs, is spread to property owners based on the appropriate property-based measure of benefit. The City will hire an outside assessment engineer, which specializes in the area of calculation and allocation of special assessments, to develop the appropriate assessment spread methodology.

Special Taxes – Significant flexibility is allowed for structuring CFD special taxes because the law does not require a direct relationship between the tax and the benefit received. However, the Rate and Method of Apportionment of the special tax must be both reasonable and equitable in apportioning the costs of the public facilities and/or services to be financed to each of the taxable parcels within the boundaries of the proposed district. Exemptions to the payment of special taxes may be provided for parcels that are to be dedicated at a future date to public entities, held by a homeowners association, or designated as open space. Also, consideration should be made with respect to minimizing the special tax burden on any affordable units. Because the tax structure for CFDs can be very complicated, special tax consultants, who specialize in the development of Rates and Methods of Apportionment are required.

B. Administrative Expenses

The calculation of special taxes and assessments should also provide, whenever possible, for the full recovery of all administrative expenses and other periodic costs of the proposed district.

C. Maximum Tax and Assessment Rates

For districts involving bond financing, the City desires to establish a maximum level of taxes to limit the overlapping debt burden on any parcel. As such, the total taxes and assessments collected through the property tax bill should not exceed 1.80% of the expected assessed value of the parcel upon final sale of the property to end users.

D. Special Tax Coverage and Maximum Tax Rates

The maximum tax rate adopted in each CFD must provide a minimum of 110% coverage of debt service (excluding earnings on a reserve fund) in order to finance delinquencies out of tax revenues. An allowance for delinquent properties will be factored in when calculating the subsequent year's special tax (the special tax would still be levied against such delinquent parcels).

E. Predictability of Special Tax Liabilities

Special tax formulas should promote stable and predictable tax liabilities, particularly for residential properties. With the exception of a variation for administrative expenses, the annual special tax levy on each residential parcel developed to its final land use shall be approximately equal each year. In the event special tax payments are supporting the provision of services, rather than, or in addition to, capital expenditures, an appropriate escalation factor may be incorporated into the Rate and Method of Apportionment to provide for the impact of inflation to on-going service costs.

F. Term of Special Tax

The term of the special tax should be sufficiently in excess of the term of any bond issue which it supports to allow for delinquencies, refinancing, and/or acquisitions of pay-as-you go facilities. However, the Rate and Method of Apportionment should also specify that the levy of special taxes would cease once the bonds are repaid. The exception would be for any special taxes levied to provide for on-going services; in this case, the City may consider a special tax term in excess of the final maturity of any bonds issued to provide for the on-going services.

10.7 Appraisal Standards

The City recognizes the California Debt and Investment Advisory Commission's Appraisal Standards for Land-Secured Financings (CDIAC Standards), released July 2004 (or any subsequently published update) as the basis for the conduct of appraisals performed in connection with Special District financings.

10.8 Applicant/Developer Disclosure Requirements

A. Initial Disclosure to Investors

The applicant/developer will be required, as requested by Debt Management and Bond Counsel, to supply any and all material needed from it to help ensure appropriate information is disclosed to prospective investors.

B. Developer Continuing Disclosure to Investors

The City shall use all reasonable means to ensure that an appropriate Developer Continuing Disclosure Agreement is executed at the time a financing is issued to ensure that the Developer and/or any affiliates, as applicable, which are material to the district are required to provide on-going disclosure to bond investors so long as they remain material.

C. Disclosure to Prospective Purchasers of Property

The developer will be required to provide a certification to the City that it will provide full disclosure of the special taxes or assessments to prospective purchasers of property it sells within the district, and in accordance with all applicable state and local laws.

10.9 Application and Administrative Procedures

As stated above, it is the policy of the City to exercise caution in approving requests for Special District financing and that each request be weighed in the context of the City's total infrastructure and financing needs. In light of potential impacts to the City's debt position, the Chief Financial Officer, working with the Debt Management Director, will consider each application for Special District financing on a case by case basis, and may not recommend such financing if it determines a financing could be detrimental to its overall debt position or the best interests of the City. Among other things, the guidelines below will help interested applicants understand the process for submitting a request for Special District formation and--if applicable--financing.

A. Petition

Notwithstanding the minimum petition thresholds established under the State law³, the City requires that a preponderance of the affected property owners (75%) petition the City to form a Special District. The higher threshold is established due to the following factors: (1) significant City resources would be directed to the advance work to form the district, and it is prudent to have some assurance that formation of the district would be successful; and (2) a successful petition and subsequent ballot process in an established

³ Pursuant to Sections 53318 and 53319 of the California Government Code, proceedings to form a CFD may be commenced upon: (1) the written request of two members of the legislative body; (2) majority approval of the City Council; or (3) a petition signed by at least 10% of registered voters (or if fewer than 12 registered voters, by the owners of at least 10% of the land). Under the California Streets and Highway Code, district formation proceedings may be commenced if landowners of 60% of the land area file a petition in which such landowners waive the requirements of the Special Assessment Investigation, Limitation and Majority Protect Act of 1931.

community (e.g., where there are residential property owners) could result in a significant lien on property whose owners voted against the proposed district.

B. Application Procedures

For developer initiated districts, an application may be obtained from, and filed with, the Department of Finance. The Department of Finance will review the application for completeness and, if necessary, request the applicant to provide further information. In consultation with any applicable departments (e.g., the City Attorney's Office, the City Planning and Community Investment Department, Engineering & Capital Projects, etc.) the Department of Finance will consider the public benefits offered by the proposed project in the context of these policies, and will make a recommendation on whether to authorize a feasibility study, pursuant to Section C, below.

C. Feasibility Study

For developer initiated districts, if authorized by the Chief Financial Officer, the City will hire an independent financial or feasibility consultant to perform a comprehensive project review and feasibility analysis of the proposed project that would ultimately provide for the payment of special taxes or assessments in connection with a bond financing. Such comprehensive review will include, but not be limited to, a review of the audited financial statements of all landowners who own more than 20% of the land contained within the proposed district in order to investigate the developer(s) financial strength and experience in large scale projects. In addition, the consultant will consider environmental requirements in connection with the development, and economic factors such as market absorption and how it relates to the project's overall feasibility. The consultant will also investigate and report on all liens against the property in question, the value to lien ratios, and other financial aspects of the project. For the Chief Financial Officer to consider a proposed financing, the study should conclude the project is feasible and could support the issuance of bonds, and that it is reasonable to proceed with formation of the district and the issuance of bonds.

D. Fees

It is the City's policy that all City and consultant costs incurred in the evaluation of applications for Special District formation and financing, as well as any and all costs incurred in forming the district and, if applicable, issuing bonds shall be paid by the applicant(s) by advance deposit increments or as otherwise agreed in writing by the City. Accordingly, fees will be collected pursuant to a Deposit and Reimbursement Agreement between the City and the applicant executed prior to the City beginning its project review. Some or all of these fees may be recoverable from bond proceeds when a financing is completed and any surplus fees would be refunded (notwithstanding the forgoing, consultant and legal costs of the developer or applicant are not eligible for reimbursement). Additionally, the costs associated with administering a district after its formation will be included in the annual special tax or assessment for the district.

000239**E. Selection of Financial Consultants and Service Providers**

The policies established in the City's Debt Policy for the solicitation and selection of professional services that are required to develop and implement the City's debt program shall apply with respect to Special District financings. In addition to the professional services outlined in the City's Debt Policy, there are consultants specific to Special District formation and financing that may be engaged, including an appraiser, a market absorption consultant, and a special tax consultant or assessment engineer.

10.10 *Timing*

If recommended by the Chief Financial Officer, and pursuant to the filing of an appropriate petition and application, and, if applicable, the completion of a Feasibility Study that concludes the project is feasible (all as set forth above in Sections 10.9 A, B, and C), the City will use its best efforts to form the district and, if a financing is contemplated, issue the bonds. However, the City will prioritize the formation and any financing activities as specified in Section 10.3 of this policy.

The City will not schedule any sale of Special District bonds so as to conflict with the sale of other securities issued for City purposes. In the event of any scheduling conflicts, the sale of bonds issued for City purposes will have priority.

10.11 *Policy Exceptions*

The City may find in limited and exceptional instances that a waiver to any of the above stated policies is reasonable.

**APPENDIX B – COUNCIL POLICY 100-12 “INDUSTRIAL DEVELOPMENT BOND
PROGRAM”**

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SUBJECT: PUBLIC INFRASTRUCTURE FINANCING ASSESSMENT DISTRICTS
AND COMMUNITY FACILITIES
POLICY NO.: 800-03
EFFECTIVE DATE: October 16, 1989

BACKGROUND:

Among the growing number of methods for financing public acquisitions and improvements are the use of special assessment or Mello-Roos Community Facility districts. Such special districts may be formed under provisions of State law (primarily 1911 Act and 1913 Act improvement districts and the Mello-Roos Community Facilities District Act of 1982) or under provisions of the City's own procedural ordinances.

These financing mechanisms permit the construction of needed projects when the construction and/or financing is not otherwise feasible or desirable. They provide a vehicle for funding improvements in developing areas where they could not otherwise be constructed to meet community needs and are a means for providing necessary facilities in older urbanizing areas.

PURPOSE:

To outline a uniform policy for funding public facilities projects through special districts in the City of San Diego; covering the initiation of proceedings, information to property owners, requirements for implementing assessment and community facilities district projects, determination of assessments, and the granting of waivers.

POLICY:I. FACILITIES TO BE FINANCED

Facilities to be financed must be public facilities for which the City or other public entity has or will have ownership and an ongoing responsibility for operation and maintenance. Further, although permitted in the Mello-Roos Act, any request that Community Facilities Districts be utilized to finance ongoing services will be approved by the City only under unusual and compelling circumstances.

II. ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS REQUESTED BY THE GENERAL PUBLICA. INITIATION OF PROCEEDINGSAssessment Districts

It is the policy of the City of San Diego that assessment proceedings be initiated one of two ways:

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1. The City Council may initiate the assessment proceedings for the following improvements:
 - a. Streets and alleys, water and sewer facilities, park improvements and other public facilities, and open space acquisition when requested by property owner petition representing 67% of the land area subject to assessment.
 - b. Underground utility conversion projects when requested by property owner petition representing 75% of the land area subject to assessment.
2. If a petition contains less than the requisite percentage of property owners signatures, assessment proceedings may be initiated by the City Council upon recommendation by the City Manager that the public interest, safety or welfare require that the proceedings be initiated. The City Manager's recommendation will be supported by a description of the nature and scope of work, the extent of the district to be assessed, allocation of costs, and the proposed method of assessment and coordination efforts with the property owners.

Community Facilities Districts

It is the policy of the City of San Diego that Mello-Roos Community Facilities Districts proceedings may commence in one of three ways:

1. The City Council may institute proceedings on its own initiative.
2. A written request may be filed with the City Council signed by two of its members.
3. A petition may be submitted signed by 10% of the registered voters or by owners of at least 10% of the land, within the proposed district.

Valid property owner petitions will be docketed for Council action no later than sixty (60) days from the date the valid petition is submitted to the City.

B. INFORMATION TO PROPERTY OWNERS

It is the policy of the City to inform each property owner by mail of the nature and scope of the proposed project, his/her estimated financial obligation under the proposed district, and the right to protest at the various hearings. Dissemination of this information shall be the responsibility of the City Manager. Generally, the dissemination of information will consist of the following:

1. During circulation of the petition, staff shall be available for any community or neighborhood meetings at the request of the property owners.
2. When a scheduled Capital Improvement Project involves joint City and property owner financing and the project is to be Council initiated in accordance with Section A, 2 of this policy, the Manager shall explain the project to all owners proposed to be assessed.
3. Following the acceptance of a property owner petition or Council initiation of a project, the Manager will, by mail, advise all property owners that are subject to an assessment and briefly explain the project and the proposed schedule for the

proceedings. It should be noted that by accepting the petition the City Council has not approved the proposed assessment district, nor indicated any type of support for the District. This can only occur at the public hearing.

4. When a major change is identified in the design, scope of work, or estimate of cost, the Manager will take appropriate steps to notify the affected property owners of the change, and the circumstances of the change.
5. Prior to the hearing on the Resolution of Intention, each property owner will be advised by mail of the pending hearings and the estimated assessment for each property.
6. If bids for the construction contract are opened after the hearing has been concluded, the Manager will, prior to the award of the contract, notify by mail all property owners whose assessments would be increased by 10% or more over the estimate presented at the hearing.
7. Sellers of any property within an assessment or community facilities district must provide a full disclosure report identifying the existence and details of this or any other special tax assessment or other liens on individual parcels to existing or future property owners.

III. INFRASTRUCTURE FINANCING OF DEVELOPER REQUIRED IMPROVEMENTS

A. POLICY CONSIDERATIONS

Council may be requested to approve the use of assessment or community facilities district procedures for financing improvements which are a requirement of development permits or agreements or tentative subdivision maps. It is the policy of the Council that these "developer-requested" districts be restricted to only those that have unusual circumstances and can satisfy the provisions of this policy. Council consideration of such requests will be made following completion of an overall feasibility analysis and in accordance with the policy guidelines outlined later in this section. Furthermore, it is the policy of the Council that these districts be submitted to the City early in the development process and be processed expeditiously for Council consideration.

Facilities to be considered for assessment or community facilities district financing are limited to those that are of extraordinary benefit to the City as defined below. Therefore, the proposed facilities must satisfy both of the following criteria:

- A1. The proposed facilities must be large in scope such as the following:
 - + Regional parks and Open Space System
 - + Major flood control projects
 - + Major water and/or sewer improvements
 - + Freeway interchanges
 - + Major (not local) streets, as well as those collector streets that are determined to have benefit outside the applicant's development
 - + Other similar-type projects

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Community Facilities District financing may also be used for the following project types:

- + Libraries, school facilities, Police area stations, or fire stations
- + Other recreational facilities of regional use
- + And certain required services; recreation programs, fire and ambulance services, flood and storm protection services

A2. The proposed assessment district must also provide some other extraordinary benefit which otherwise would not be realized through the normal subdivision process. Examples of this type of benefit would be:

- + The provision of the proposed improvements in a more timely fashion
- + facilitating a project that multiple properties/developments are responsible for providing
- + A City-adopted redevelopment project
- + Some similar benefit that the City Council finds acceptable

NOTE: The requirements of the criteria in Paragraph A2 for extraordinary benefit may be satisfied by reference to an earlier discretionary approval or plan (eg., financing plan or development agreement) which (1) contemplated the use of assessment or community facility district financing and (2) provided extraordinary benefits similar to those described in Paragraph A2.

In areas such as Otay Mesa, where the City is actively endeavoring to facilitate the development of employment opportunities or for projects that involve achieving a significant policy goal of the Council, the proposed improvements need not satisfy the above criteria, assessment district proceedings may be initiated if the associated developments satisfy the financial criteria outlined in this policy.

Public facilities bond funds may be utilized to acquire developer improvements after they have been constructed by the developer. Such funding shall be identified as "acquisition-type districts." Assessment districts in which the City would act as the Project Manager for construction (construction-type district) may not be utilized to construct Developer Improvements which the developer is already obligated to construct. Construction-type districts pose a severe and unbudgeted impact on engineering and administrative staff. The transfer of responsibility for construction of facilities further represents a transfer from the developer to the City of potential financial and/or other liabilities.

The following additional criteria shall apply to assessment or community facilities districts:

1. The value-to-lien ratio for all properties, after improvements are in place, within the district must be at least 3:1.

In determining the value to lien ratio either assessed values for individual properties will be obtained from the County of San Diego Assessor's Office or the City will utilize an appraisal prepared by an independent appraiser under contract to the City. In those instances where the ratio of a lot or lots are less than 3:1, credit enhancements must be provided to the satisfaction of the City. These enhancements may include, but are not limited to, letters of credit or appropriate assurance.

2. The City shall determine how the spread of assessments or special taxes are made to those properties within the distance boundaries.
3. As a general rule for residential projects, total taxes and special assessments collected through the property tax bill should not exceed 2% of the assessed value of the property, including improvements. (This 2% includes allowances for potential City ad valorem taxes, see 6 below).
4. The City may require district proponents to enter into an agreement whereby they agree to be responsible for assuring the payment of assessments of a parcel or parcels that are found to be of concern. This would not be applicable after the parcel or parcels in question are themselves developed to their ultimate use.
5. All of the City's administrative costs, both before and after the debt is issued, shall be included in and compensated by the district. These expenses will include the cost of audited statements of expenditures for acquisition districts. Expenses not chargeable to the district shall be borne by the developer.
6. The City will consider its total indebtedness at the time it evaluates requests for assessment or community facilities districts. The City retains the right to withhold financing if it determines such financing to be detrimental to its debt position.
7. The City must be satisfied that the project itself is financially feasible.

B. INITIATION OF PROCEEDINGS - ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS

The following sequential steps shall occur:

1. The developer shall complete the "Application For Public Financing" form and make a deposit at the office of the City Engineer sufficient to

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cover all of the City's costs of analyzing the project as described below. This application shall be submitted at least ten months in advance of the developer's forecasted date of entering into sales contracts with buyers of the subdivided property.

2. The City will then assess the extent and type of the proposed improvement. Also, the amount of potential debt to be issued by the City on the specific project or project area will be evaluated.
3. The City's special assessment and community facilities district team consisting of the Financial Management Director, City Auditor, City Engineer, City Treasurer, City Attorney or their designated representatives, shall obtain an analysis as to the overall feasibility of the developer's project. The developer shall provide any and all information requested by the City.

To accomplish this analysis the City shall likely retain independent, qualified consultants who will report to and receive direction from the City for the following purposes:

- a. A financial advisor shall obtain and review the audited financial statements of all landowners who own more than 20% of the land contained within the proposed assessment district in order to investigate the developer(s) financial strength and experience in large scale projects. The financial advisor shall investigate and report on all liens against the property in question, the value-to-lien ratio, and other financial aspects of the project. if the value-to-lien is less than 3:1, an analysis of project enhancements shall be accomplished. Finally, this advisor will consider economic factors such as market absorption and how it relates to the project's overall feasibility.
- b. An assessment engineering consultant who shall review the project plans, specifications, and estimate as well as analyze how the assessments/taxes will be spread. This will include determining to whom the costs of the project should be assessed.
- c. In the case of community facilities districts, a special tax consultant may be required in place of the assessment engineer for the development of the special tax formula.
- d. A special bond counsel to review legal aspects of the project and to render advise relative to procedural issues.

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It should be noted that by conducting this analysis the City has in no way committed itself to allowing the assessment district. This commitment can only be made by the Council.

4. Once the above analysis is completed, the property owner(s) may file a petition requesting an assessment or community facilities district at the office of the City Engineer.
5. All of the above steps are only preliminary to the City Council's actual consideration of a proposed assessment district. The City Engineer shall then process the petition for City Council consideration, along with consultant agreements for the assessment or community facilities district proceedings, and a Manager's recommendation outlining the findings of the analysis.

If the City Council accepts the petition, the Resolution of Intention and public hearing will then be held at the appropriate times with each property owner in the proposed district being advised by mail of the hearing and the estimated assessment or special tax for each property. It should be noted that the public hearing will represent the City Council's actual decision on a proposed Assessment District.

6. While the applicant may request that a type of special district be utilized on a proposed project, the City Council shall have the final authority as to which type will be used.

The following sections apply both to assessment districts requested by the general public and developer-requested assessment districts.

C. ASSESSMENT DISTRICTS AND METHODS OF ASSESSMENT

The State Assessment Acts require that the costs of the improvement or acquisition be apportioned to the lands in the district in proportion to the benefits received. In establishing benefit and apportioning costs, certain general guidelines may be used to assure conformity between similar districts and between similarly benefitted properties within a district. These guidelines apply to the areas of benefit, allocation of costs and apportionment of assessments.

1. Areas of Benefit

The area of benefit is delineated by the District's boundaries and includes properties which benefit from the improvement or acquisition. Among the typical areas of benefit encountered are the following:

- a. Local (Not Applicable to Developer Projects) and Collector Streets: The area of benefit normally includes properties which

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front on the proposed improvement or are located within an area approximately one-half block distance on either side of the improvement.

- b. Major Street or Arterial Projects: The area of benefit normally includes all properties which front on the proposed improvement and extends to approximately one-half the distance to the next parallel major or arterial street but may be modified by such topographical features as canyons.
- c. Utilities (Water, Sewer, Electrical, Telephone, etc.): The area of benefit normally includes all properties which are to be ultimately served from the facility.
- d. Population-Based Parks (Neighborhood or Community Park Facilities): The area of benefit coincides with the Park Service District boundaries.
- e. Open Space (Park Reserve): The area of benefit as normally established includes all properties to be benefitted by the open space acquisition, with consideration of proximity, visibility, access, and topography.

2. Allocation of Costs

a. City Contributions

Certain public improvements or acquisition provide a local benefit, a community benefit, and a general City benefit. In those instances where funding is available, the City Council may elect to provide a portion of the project funding attributable to a general City benefit which exceeds the special local or community benefit. Examples of such general City benefit are traffic signals that benefit an area much larger and less defined than the proposed district or off-site improvements that are included in the project at the convenience of the City but which do not especially benefit properties in the district. Such allocation of City funding is set forth in the following other Council Policies.

(1) Street Improvements 200-01

(2) Water and Sewer 400-06 and 400-07

(3) Parks 700-07

(4) Open Space (Park Reserve) 700-31

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(5) Storm Drains 800-04

b. Assessments Against City Owned Land

Assessments districts often include within their boundaries parcels of land owned by the City. Such City-owned land may be the site of existing or proposed public facilities, such as libraries, fire stations, or parks or may be undeveloped awaiting either improvement or sale. In each instance, the measure of benefit that would accrue to the City-owned parcels is to be critically evaluated in light of the City's ability to pay, as well as fairness to the other properties in the district. Whenever City-owned property is included within the boundaries of an assessment district, the docket supporting information provided to Council at the Resolution of Intention shall describe the City-owned land, its present and proposed uses, and what share of project costs, if any, that have been assigned to the City.

3. Apportionment of Assessments

The method used for measuring benefit should consider measurable factors which describe and reflect the physical features of the property, including the area of the parcel, frontage on the improvement, proximity to the improvement, and ability to gain access to the improvements.

Appropriate adjustments to the basic method for measuring benefit should be employed to reflect unique situations such as double frontage lots, corner lots, or irregularly shaped parcels. The following are typical methods used for the apportionment of costs for various types of improvements:

a. Local (Not Applicable to Developer Projects) and Collector Streets and Utilities (including Pavement, Curb, Sidewalk, Water and Sewer Facilities, Street Lights, Local drainage Facilities and Rights-of-way): These costs are normally apportioned on the basis of frontage, area, or a combination thereof.

b. Major Streets and Arterials: Abutting properties should receive an allocation of costs similar to that for an equivalent local street. Costs not absorbed by the abutting properties should be uniformly distributed to the balance of benefiting properties on the basis of area or other measurable factors, such as proximity and accessibility or a combination thereof.

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- c. Population-Based Park Improvements, Open Space (Park Reserve) Acquisition and Under- ground Conversions:
Apportionment of the assessments for these types of improvements is based on a property unit method of spread with zones of benefit related to proximity and/or topographic features of the parcels. Property unit is generally expressed in terms of equivalent dwelling units.

D. COMMUNITY FACILITIES DISTRICTS AND ESTABLISHMENT OF SPECIAL TAX

The Mello-Roos Community Facilities Act provides that funds to repay the debt incurred by the sale of bonds will be derived from a special tax formula applied within the district. The special tax formula may take into consideration benefit to each parcel, as well as City policy and other local circumstances. Ultimately, the main objective of the formula is that it be considered reasonable by the City Council. In apportionment of this special tax, the City Council may use area of benefit definitions similar to those utilized in Section C 1 above, but it is not required by law.

E. IMPROVEMENTS TO COVER AN ENTIRE BLOCK

*It is the policy of the City Council that Assessment District projects shall cover at least one entire block and several blocks if possible.

F. PROJECT TIMETABLE

It shall be the responsibility of City staff to implement assessment district projects in a timely manner in order to retain the active support of the petitioners and to minimize the affects of inflation on project costs. No more than twelve months shall be consumed between Council acceptance of the petition and completion of the right-of-way acquisition and design phase nor more than 18 months between petition acceptance and the public hearing. At the end of each fiscal year, staff shall provide Council with a status report on assessment district activity, including compliance with this section of the policy.

G. RETENTION OF CONSTRUCTION CONTRACTOR

For Community Facilities Districts in which the Resolution of Formation has taken place, the developer shall adhere strictly to the following bid process:

1. Upon approval of the bid package by the City, the developer shall advertise for bids in the appropriate newspapers and periodicals.
2. Contractors interested in submitting sealed bids for the project will be directed to do so on a specific date and within a time period (i.e. 9:00

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a.m. to 11:00 a.m.) at the developer's place of business. During this specified time period, the City Street Superintendent, or designated representative, shall be in attendance to receive the bid packages.

3. The bid packages will then be opened immediately after the close of the specified time period in the presence of the City's Street Superintendent. The developer will then begin the process of executing a contract with the lowest responsible bidder. It should be noted that this lowest responsible bidder will be expected to satisfy the City of San Diego equal opportunity goals.

For Community Facilities Districts in which the Resolution of Formation has not taken place and all acquisition assessment districts, the following procedure shall be followed:

1. Using a bid package approved by the City, the developer shall secure at least three qualified bids for the work to be done. The project shall then be awarded to the lowest responsible bidder. If the developer desires to award to a contractor other than the low bidder, a written request must be submitted to the City. The City may allow this if the applicant can provide adequate justification.

Any extra work or charges during construction shall be justified and documented. The City shall retain the right to be in attendance to receive the bid package, or to inspect all bids and change orders.

2. When all the work has been completed to the satisfaction of the City, the developer shall submit to the City verification of payment, in a form acceptable to the City, for the construction of the project, including documentation that the contractor has satisfied the City of San Diego's minority- and women-owned business enterprise policies.

H. DISCLOSURE STATEMENT

For developer improvements, the developer shall prepare and obtain approval from the City a statement and report notifying any prospective property owners of the existence or proposal of special assessments or taxes on the property. This "Disclosure Statement" shall be issued to and signed by the prospective buyer prior to any commitment by the buyer to purchase the property. In order to quantify the assessment or special tax, residential property shall follow a procedure where the home buyer is given two options. The first option will list the assessment or special tax "buy out" amount to be paid at the close of escrow. The second option will list the annual payments to be included with property tax payments for each year of the assessment term and the associated total of these payments.

I. INCIDENTAL COSTS

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It is the policy of the City of San Diego that the incidental costs, which include engineering, advertising, printing, clerical service, inspection, attorney's fees, etc., be recovered and apportioned to the entire district in proportion to the assessments for the work. Incidental costs will be computed according to the following schedule:

1. <u>Construction Contract Costs</u>	<u>Total Incidental Costs</u>
\$ 10,000	\$ 5,000
25,000	9,000
50,000	16,000
100,000	30,000
200,000	56,000
300,000	76,000
400,000	92,000
500,000	106,000
1,000,000	186,000
 2. <u>Maintenance Projects</u>	
(no construction or acquisition)	8% of project costs for administration

The incidental costs may be increased from the schedule shown in order to cover special services or costs not normally incurred, such as right-of-way acquisition, and fees for consulting attorneys, engineers or appraisers.

In the case of acquisition projects (park reserve or open space), the incidental costs shall consist of the actual cost incurred in bringing the project to the public hearing, plus an estimate of costs to be incurred following the public hearing such as the service of bonds by the Treasurer's Office and expense incurred in acquisition.

* Extracted from Council Policy 800-02

NOTE: Council Policy 800-02 is deleted by the implementation of this policy.

HISTORY:

Adopted by Resolution R-183351 04/06/1965
 Amended by Resolution R-185734 12/14/1965
 Amended by Resolution R-188027 08/09/1966
 Amended by Resolution R-193345 04/04/1968
 Amended by Resolution R-212402 01/09/1975

000253

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Amended by Resolution R-258118 03/21/1983

Amended by Resolution R-274571 10/16/1989

000255

REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO1. CERTIFICATE NUMBER
(FOR AUDITOR'S USE ONLY)

331

116

TO:
CITY ATTORNEY2. FROM (ORIGINATING DEPARTMENT):
Debt Management3. DATE:
October 18, 20074. SUBJECT:
Special District Formation and Financing Policy5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.)
Elizabeth Kelly, 236-6932, MS 7B6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.)
Jennifer Carroll, 236-6946, MS 7B7. CHECK BOX IF REPORT TO
COUNCIL IS ATTACHED ☒

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND						9. ADDITIONAL INFORMATION / ESTIMATED COST:
DEPT.						
ORGANIZATION						
OBJECT ACCOUNT						
JOB ORDER						
C.I.P. NUMBER						
AMOUNT						

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>Eric Labadie</i>	10/24/07	8			
2	LIAISON OFFICE	<i>ELP</i>	10/24/07	9			
3	CFO/DEPUTY CHIEF			10			
4	COO	<i>[Signature]</i>	10/25/07	11			
5	CITY ATTORNEY	<i>[Signature]</i>	10/25/07		DOCKET COORD:		COUNCIL LIAISON: <i>SL</i> 10/24/07
6	ORIGINATING DEPARTMENT	<i>Eric Labadie</i>	10/25/07		COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input checked="" type="checkbox"/> ADOPTION		
7					<input type="checkbox"/> REFER TO:		COUNCIL DATE: 11/06/07

11. PREPARATION OF:

☒ RESOLUTION(S)☐ ORDINANCE(S)☐ AGREEMENT(S)☐ DEED(S)

1. Repeal of Council Policy 800-03, "Public Infrastructure Financing Assessment Districts and Community Facilities," amended by Resolution R-274571, October 16, 1989.
2. Adopt the "Special District Formation and Financing Policy," pursuant to the Mello-Roos Community Facilities Act of 1982.

11A. STAFF RECOMMENDATIONS:

Adopt the Resolution.

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): Citywide

COMMUNITY AREA(S): Citywide

ENVIRONMENTAL IMPACT: This activity is not a project as defined in State CEQA Guidelines, Section 15378, and is therefore exempt per State CEQA Guideline Section 15060(b)(3).

HOUSING IMPACT: N/A

OTHER ISSUES: N/A

EXECUTIVE SUMMARY SHEET

000256

DATE REPORT ISSUED:	October 31, 2007	REPORT NO: 07-171
ATTENTION:	Council President and City Council	
ORIGINATING DEPARTMENT:	Department of Finance - Debt Management	
SUBJECT:	Special District Formation and Financing Policy	
COUNCIL DISTRICT(S):	City-wide	
STAFF CONTACT:	Elizabeth Kelly (619-236-6932)/Chuck Wilcox (619-533-4519)	

REQUESTED ACTION:

Adopt the proposed Special District Formation and Financing Policy and repeal Council Policy 800-03, "Public Infrastructure Financing Assessment Districts and Community Facilities."

STAFF RECOMMENDATION:

Approve the requested action.

EXECUTIVE SUMMARY (ALSO SEE FULL STAFF REPORT):

In connection with a comprehensive City Debt Policy, the Department of Finance has developed a Special District Formation and Financing Policy (the "Special District Policy"). The Special District Policy will appear as an appendix to the City Debt Policy, and is intended to provide uniform guidelines for Community Facilities District ("CFD")¹ and 1913/1915 Act Assessment District² ("Assessment District") formation and financing. Such Special Districts are typically formed to finance public infrastructure in connection with new development, but may also be formed to finance improvements pertaining to established communities. Subject to voter approval and once a district is formed, special taxes or assessments may be levied upon properties within a district to pay directly for facilities and services, or to repay bonds issued to finance the facilities.

Currently, Council Policy 800-03 "Public Infrastructure Financing Assessment Districts and Community Facilities," ("CP 800-03") established in 1965 and last amended by resolution on October 16, 1989, provides policy direction on the formation of CFDs and Assessment Districts. It is proposed that CP 800-03 be repealed and that CFD and Assessment District formation and financing be addressed through the City Debt Policy, which would provide a more comprehensive and uniform approach to addressing this sub-topic as a part of the City's overall debt policy. Legislative approval of the Special District Policy is required pursuant to the Mello-Roos Community Facilities Act of 1982, which requires a local agency to establish local goals and policies concerning its CFD activities.

Listed and described below are certain key policy changes made in the proposed Special District Policy as compared to the existing CP 800-03. These changes are consistent with recent trends in terms of how other municipalities across the state are approaching Special District formation and financing.

A. Provision of Services Component - Pursuant to the California Government Code, CFDs may fund certain public services, including police and fire services, and recreation program services so long as they are in addition to, and do not supplant, services already provided within the territory.

Existing Policy: Provides that the use of CFDs to finance on-going services would be approved by the City "only under unusual and compelling circumstances."

Proposed Policy: Due to the significant budgetary impact that new facilities may place on the City in terms of on-going operations and/or maintenance costs, proposed CFD financing for new facilities should provide funding for a portion of any on-going operations and/or maintenance costs for such facilities.

¹ The Mello-Roos Community Facilities Act of 1982 permits a public agency to levy a special tax within a defined area to finance certain essential facilities, or to pay for certain services, when specific voting requirements are met.

² An Assessment District may be formed pursuant to the Streets and Highways Code Municipal Improvement Act of 1913. The associated bond acts, also contained within the Streets and Highways Code, include the Improvement Bond Act of 1915 and the Refunding Act of 1984, which provide for the issuance of bonds under various assessment proceedings and the refunding of assessment bonds, respectively.

B. Minimum Value to Lien Ratio - The security for CFD and Assessment District bonds is the value of the property securing the special tax or assessment lien. For these types of bonds, the investment community expects that the issuer will covenant to commence foreclosure proceedings against delinquent parcels of land in the event certain special tax or assessment delinquency thresholds are reached. To protect the credit quality of the bonds and the interests of bondholders in the event delinquencies for a parcel reach a level requiring foreclosure action to recover the outstanding taxes or assessments, it is important to establish an appropriate minimum value-to-lien ratio. The value-to-lien ratio is the ratio between the value of the land and improvements for a parcel subject to the special tax or assessment to the amount of bond principal allocable to such parcel and the share of principal allocable from any other outstanding bonds secured by a special tax or special assessment levied on the parcel.

Existing Policy: Requires a minimum value-to-lien ratio of 3:1.

Proposed Policy: Requires a minimum value-to-lien ratio of 4:1, which could strengthen the credit quality of any future issuance of CFD or Assessment District bonds.

C. Maximum Tax and Assessment Rates - Establishing tax rate limitations is recommended in order to balance the need to finance public facilities and services in newly developing areas against the desire to avoid overburdening residents of those areas with special taxes or assessments.

Existing Policy: "Total taxes and special assessments should not exceed 2.00% of the assessed value of the property, including improvements."

Proposed Policy: Total taxes and assessments collected through the property tax bill should not exceed 1.80% of the assessed value of the parcel upon final sale of the property to an end user. In light of the significant increase in general property values within the City over the past decade, a lower maximum rate is proposed to limit the overlapping debt burden on any one parcel.

A more detailed description of the key policy changes listed above, as well as a general discussion of other proposed changes to the existing policy is provided in the full staff report on this item. The proposed Special District Policy has been reviewed by the City Attorney's Office, City Planning and Community Investment, and an independent financial advisory firm, Fieldman, Rolapp & Associates, which has significant experience in Special District formation and debt issuance and has worked with many municipalities across the state, including other cities within the County of San Diego.

III. FISCAL CONSIDERATIONS:

None specific to this action.

IV. PREVIOUS COUNCIL and/or Committee ACTION:

The Debt Policy, including Appendix A (the Special District Policy), was presented to the Budget and Finance Committee (the "Committee") on June 6, 2007, and was discussed in further detail at the Committee meetings of July 25, 2007 and September 26, 2007. On September 26, 2007, the Committee's adopted action was to recommend the Debt Policy and the repeal of Council Policy 800-03 to the City Council.

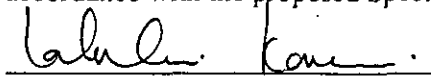
Adoption of Council Policy 800-03 by Resolution R-183351 on April 6, 1965, and adoption of amendments to such policy on the following dates: December 14, 1965 (R-185734); August 9, 1966 (R-188027); April 4, 1968 (R-193345); January 9, 1975 (R-212402); March 21, 1983 (R-258118); October 16, 1989 (R-274571).


V. COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

There were no community participation or outreach efforts.

VI. KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):

Future applicants for Special District formation or financing. Owners of property subject to a special tax or assessment lien and bondholders that own bonds in connection with Special Districts that may be formed in the future, and in accordance with the proposed Special District Policy.


Lakshmi Kommi
Debt Management Director


Jay M. Goldstone
Chief Operating Officer

RESOLUTION NUMBER R-_____

DATE OF FINAL PASSAGE _____

RESOLUTION OF THE COUNCIL OF THE CITY OF SAN
DIEGO APPROVING THE CITY OF SAN DIEGO SPECIAL
DISTRICT POLICY

WHEREAS, in connection with a comprehensive City Debt Policy, the Department of Finance has developed a Special District Formation and Financing Policy [Special District Policy] to provide uniform guidelines for Community Facilities District [CFD] and 1913/1915 Act Assessment District [Assessment District] formation and financing; and

WHEREAS, Council Policy 800-03 currently provides policy direction on the formation of CFDs and Assessment Districts; and

WHEREAS, the Special District Policy, along with the City Debt Policy, will provide a more comprehensive and uniform approach to use of CFDs and Assessment Districts than Council Policy 800-03; and

WHEREAS, legislative approval of the Special District Policy is required pursuant to the Mello-Roos Community Facilities Act of 1982; NOW, THEREFORE,

BE IT RESOLVED by the Council of the City of San Diego, as follows:

Section 1. That Council Policy 800-03 is hereby repealed.

Section 2. That the Special District Policy is approved.

Section 3. That the Special District Policy shall only apply to CFDs and Assessment Districts formed after the effective date of this resolution.

Section 4. That this resolution shall go into effect immediately.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By


Mark D. Blake
Chief Deputy City Attorney

MDB:jdf
07/17/07
Or.Dept:Finance
R-2008-86

I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of _____.

ELIZABETH S. MALAND
City Clerk

By _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor